

## Message Text

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PAGE 01 BRUSSE 03697 252108Z

14-11

ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 SAM-01

AGR-10 /089 W

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R 251512Z APR 75

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 3745

INFO AMEMBASSY LUXEMBOURG

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY BONN

UNCLAS BRUSSELS 03697

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: BE, EFIN, EGEN

SUBJECT: BELGIAN GOVERNMENT TO LAUNCH ECONOMIC EXPANSION?

REF: (A) BRUSSELS A-57,(B) BRUSSELS 7326

1. ON APRIL 23, THE NATIONAL BANK OF BELGIUM (BNB) ANNOUNCED THAT IT HAD RELAXED SOME OF THE QUOTA RESTRICTIONS IT HAD IMPOSED LAST YEAR ON LENDING BY COMMERCIAL BANKS. IN ADDITION, THE BNB DISCOUNT RATE WAS SIMULTANEOUSLY LOWERED ONE-HALF PERCENT TO 7 PERCENT AND CERTAIN DEPOSITS WHICH THE COMMERCIAL BANKS HAD BEEN REQUIRED TO HOLD IN LOW INTEREST ACCOUNTS WITH THE BNB WERE RELEASED FOR UNRESTRICTED USE.

2. IN MAKING THIS ANNOUNCEMENT, THE BANK SAID IT INTENDED TO EXERT PRESSURE TOWARD THE LOWERING OF ALL INTEREST RATES IN BELGIUM AND TOWARD A SLIGHT LOOSENING OF THE BONDS RESTRICTING THE LEVEL OF LOANS OUTSTANDING FROM COMMERCIAL BANKS.

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PAGE 02 BRUSSE 03697 252108Z

IN OFF-THE-RECORD STATEMENTS, THE BANK ADDED THAT THIS

DID NOT REPRESENT THE BEGINNING OF AN EXPANSIONIST POLICY BY

THE BANK BUT RATHER WAS MEANT TO BE ONLY A SLIGHT LOOSENING OF  
THE PREVIOUS TIGHTLY SCREWED DOWN LID ON COMMERCIAL BANK CREDITS.

3. IN A SEPARATE BUT RELATED EVENT THE SAME DAY, THE UNIVERSITY  
OF LOUVAIN INSTITUTE OF ECONOMIC RESEARCH MADE PUBLIC ITS ECO-  
NOMIC REPORT FOR THE FIRST QUARTER AND ITS POLICY RECOMMENDATIONS  
FOR THE SECOND QUARTER OF 1975. SINCE THE INSTITUTE IS CLOSELY  
IN TUNE INTELLECTUALLY WITH THE ECONOMIC THINKERS OF THE  
CURRENTLY DOMINANT FLEMISH CATHOLIC PARTY (CVP), THE  
INSTITUTE REPORT MAY BE INDICATIVE OF THINKING CURRENT IN CABINET  
CIRCLES.

4. THE LOUVAIN REPORT NOTES THAT BELGIAN GOVERNMENT'S  
ECONOMIC POLICY IS TO STRESS ANTI-INFLATIONARY MEASURES AT THE  
SACRIFICE, IF NECESSARY, OF EXPANSIONIST MEASURES. THE REPORT  
ALSO NOTES THAT THE MEASURES ACTUALLY TAKEN TO DATE (MAINLY  
MONETARY) HAVE HAD ONLY LIMITED EFFECT IN CONTROLLING INFLATION.  
THE REPORT THEN SUGGESTS THAT THE TIME HAS NOW COME FOR  
A MODIFICATION OF THIS POLICY IN THE DIRECTION OF A  
MILDLY EXPANSIONARY (BUT SELECTIVE) PROGRAM. THIS IS WARRANTED  
NEW, ACCORDING TO THE REPORT, BECAUSE BELGIAN PRODUCTION FACI-  
LITIES ARE CURRENTLY SERIOUSLY UNDERUTILIZED (74 PERCENT OF  
CAPACITY)AND BELGIUM WOULD NOT OTHERWISE BE READY TO PROFIT FROM  
THE GROWTH IN THE GERMAN ECONOMY ( BELGIUM'S MAJOR FOREIGN MARKET)  
WHICH THE AUTHORS OF THE REPORT EXPECT TO BOOM AGAIN IN THE  
SECOND HALF OF THIS YEAR.

5. THE REPORT RECOGNIZES THAT WITH EVEN A MILDLY  
EXPANSIONARY POLICY IN BELGIUM, THERE IS A REAL DANGER OF NEW  
INFLATIONARY PRESSURES BUT THE AUTHORS OF THE REPORT BELIEVE  
THAT IF FISCAL POLICY IS USED APPROPRIATELY TO INSURE THAT THE  
EXPANSIONARY BOOST HITS PRODUCTION BEFORE IT FLOWS INTO INDIVIDUAL  
INCOMES, THE EFFECT WILL NOT BE SERIOUSLY INFLATIONARY UNDER  
CURRENT CIRCUMSTANCES. TO INSURE THESE DESIRABLE EFFECTS, THE  
LOUVAIN INSTITUTE SIMULTANEOUSLY CALLS FOR MORE CONTROL ON BUDGET  
EXPENDITURES AND A SLIGHT EASING OF BELGIUM'S TIGHT MONETARY  
CONTROLS THE INSTITUTE'S REPORT OPPOSES PRICE CONTROLS AND ANY  
DEVALUATION OF THE BELGIAN FRANC.

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PAGE 03 BRUSSE 03697 252108Z

6. COMMENT: ALTHOUGH THESE TWO SWALLOWS DO NOT ALONE MAKE  
A SUMMER'S EXPANSIONARY ECONOMIC PROGRAM, THEY SUGGEST THAT  
THE CVP'S THINKING MAY BE MOVING TOWARD REDUCING THE PRESENT  
GOVERNMENT'S CURRENT EMPHASIS ON FIGHTING INFLATION AND TOWARDS  
A MOVE FOR A MODERATELY EXPANSIONIST ECONOMIC POLICY DURING THE  
REMAINDER OF 1975.

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## Message Attributes

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